Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	SB0420	**Title:**	Authorize lease contract with purchase option for Montana heritage center
Primary Sponsor:	Hamlett, Bradley	**Status:**	As Introduced

☐Significant Local Gov Impact ☐Needs to be included in HB 2 ✓Technical Concerns

☐Included in the Executive Budget ✓Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$0	$0	$0	$2,784,842
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance:	$0	$0	$0	($2,784,842)

Description of fiscal impact: SB 420 would require increases to operating budgets for agencies occupying the new facility to cover the costs of the lease. The state would be obligated for the full term and cost of the lease per 18-3-106 MCA, which would supersede the non-appropriation provision of 2-17-101(6) MCA. The lease payment, for the first year of occupancy is estimated to cost $2,784,842 in FY 2019.

FISCAL ANALYSIS

Assumptions:

1. It is assumed the newly leased Montana Heritage Center would be built at the 6th Avenue & Roberts Street site as specified in HB 5, 61st Legislature.
2. The new leased Montana Heritage Center design and floor plans would be constructed in accordance with the concept already developed in the "Schematic Design Report" of April 2010, as developed by CTA Architects Engineers (CTA).
3. The Schematic Design Report specifies approximately 65,604 square feet (sf) for the new building and extensive renovation of the existing 93,000 sf of the existing Veterans' and Pioneers' Memorial Building. The newly leased Heritage Center would not include any renovation of the existing building.
4. The newly leased Heritage Center is to include additional square footage of approximately 29,000 sf (page 1, line 12 of the bill, "to include up to three floors.") above that shown in the Schematic Design Report.

5. The Schematic Design Report specifies underground connectivity between the new building and the existing Veterans' and Pioneers' Memorial Building. This connectivity is essential to the transportation and preservation of collection materials. The new lease would include the underground connectivity into the cost of the lease.
6. The City of Helena would require compliance with the building code which necessitates a minimum 70-stall parking structure on the site based upon the type, use, and size of the new leased building. The cost to construct and operate the parking structure is to be included in the cost of the lease.
7. The legislated site at 6th Avenue & Roberts Street presently includes the General Services Division's (GSD) facilities/grounds maintenance shops. The cost of the lease would incorporate construction of new GSD facilities shops elsewhere on the Capitol complex.
8. The old state motor pool lot on the site has been appraised at $1.0 million and must be purchased from the Department of Transportation (MDT). MDT indicates the motor pool lot was originally purchased with federal funds by MDT and that federal requirements necessitate MDT be reimbursed the appraised value if it is no longer under MDT stewardship. The cost of the land purchase would be included in the cost of the lease.
9. Using the Schematic Design Report, the Architecture & Engineering Division (A&E) estimates a developer's cost to construct a new leased Heritage Center to be $35,338,273, inclusive of construction and design fees as follows:
    a. Construction at $32,538,273 to consist of the following:
        i. $20,015,454 new 65,604 square foot heritage center
        ii. $7,250,000 new 29,000 square foot 3rd floor
        iii. $1,575,000 parking structure
        iv. $1,432,885 relocation of GSD shops
        v. $1,000,000 cost of old state motor pool lot
        vi. $1,264,934 for land development expenses.
    b. Architectural and engineering fees: $2,800,000.
    c. The cost of financing the construction cost of $35,338,273 for a typical developer is estimated at 4% per year for the 30-year term and is $60,735,715, inclusive of principal and interest.
    d. For determination of the costs/sf of the lease, the gross sf must be reduced to the net square feet actually leased and a factor of 70% is used for this estimate. 94,604 * 70% = 66,223 net sf.
    e. The cost per sf per year for construction only is $60,735,715 / 30 years / 66,223 net sf = $30.57/sf for construction only.
10. GSD estimates a typical developer's operational and maintenance (o&m) costs to be $22.83/sf, which includes expenses for utilities, janitorial, grounds maintenance, sanitation, general maintenance, mechanical systems maintenance, pest control, elevator maintenance, snow removal, recycling efforts, insurance, taxes, campus security, state information technology services division, and property management. It is anticipated the developer would be required to contract with and pay GSD for many of these services.
11. The estimated total cost of the lease is calculated as follows:
    a. $30.57/sf for construction plus $22.83/sf for o&m = $53.40 per sf per year
    b. $53.40 times 66,223 leased sf times 30 years = $106,089,246.
    c. A developer's return on investment is anticipated to be 5% and is calculated on the total cost, $106,089,246 times 1.05% = $111,393,708
12. Per section 1(2), the total cost is to be paid at 75% over the 30-year term with the remaining 25% due as a lump-sum payment at the conclusion of the term.
    a. The annual lease payment would be $111,393,708 times 75% divided by 30 years = $2,784,842 per year.
    b. The lump-sum payment due at the end of the 30-year term would be $111,393,708 times 25% = $27,848,427.

   c. Per section 1(2) of the bill and 18-3-106 MCA, the lump sum payment would be due and owing the developer at the end of the 30-year term regardless of whether or not the option to purchase is accepted by the state.

13. Each agency occupying the building would be responsible for its own furnishings, equipment, moving, and all other associated costs. The Montana Historical Society (MHS) would also be responsible for all interpretive display costs.
14. The legislature would be responsible for all associated costs of the legislative hearing room during legislative sessions, inclusive of the legislature's pro rata share due for the months it is available to the legislature.
15. The effective date of the bill is January 15, 2016. It is assumed GSD can commence its procurement process upon passage of the bill but cannot enter into a lease until after the effective date of the bill. GSD estimates the procurement process could take as much as one year. Construction is estimated to take two years from the date of the execution of the lease. The building could be completed and ready for occupancy by July 2018.
16. The state would be obligated for the full-term and cost of the lease per 18-3-106, MCA, which would supersede the non-appropriation provision of 2-17-101(6) MCA.

	FY 2016 Difference	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
Fiscal Impact:				
Expenditures:				
Operating Expenses	$0	$0	$0	$2,784,842
TOTAL Expenditures	$0	$0	$0	$2,784,842
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$2,784,842
TOTAL Funding of Exp.	$0	$0	$0	$2,784,842
Revenues:				
General Fund (01)	$0	$0	$0	$0
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$0	$0	($2,784,842)

Effect on County or Other Local Revenues or Expenditures:

Long-Term Impacts:

1. Future legislatures would be required to approve increases to agencies' operating budgets for the leased space as provided in 18-3-106 MCA. The legislature would be responsible for the lump-sum payment due at the end of the 30-year term for $111,393,708.

Technical Notes:

1. If the state needs to sell or lease the state-owned land to the lessor, sale or lease would require approval of the state land board per 18-3-105, MCA.

2. The state would be obligated to the lessor for the full-term and cost of the lease per 18-3-106, MCA, which would supersede the non-appropriation clause required in 2-17-101(6), MCA.
3. The appraised value of the new heritage center at the end of the 30-year lease term is indeterminable.
4. The bill requires the agencies occupying the new leased building to pay the cost of the lease and lump-sum payment from their operating budgets on a pro-rata basis determined by the amount of square footage occupied by the agencies. As the agencies occupying the building and the amount of square footage occupied by each is unknown, an allocation of lease costs among agencies cannot be determined.
5. However, the MHS is anticipated to occupy the net square footage identified in the Schematic Design Report of 45,330 net sf and another agency(ies) would occupy the balance of 20,893 net sf. It is anticipated the MHS would be responsible for approximately 68.5% of the annual lease payments and approximately 68.5% of the lump-sum payment at the end of the lease term.
6. Even though MHS presently occupies and uses nearly the entire existing Veterans' and Pioneers' Memorial Building, MHS pays rent for only one-third of the existing building.
7. It is not possible to determine how future legislatures would choose the source and amount of expenditures from agency operating budgets and whether the expenditures would be from the general fund, state special revenue, federal special revenue, or other.
8. Potential escalation of the lease rate/sf over the 30-year lease term for increases in utility rates, operations, and maintenance costs is unknown and is not included. However, escalation of lease rates for these items is likely and increases over the 30-year lease term to the assumed operations and maintenance costs of $22.83 per sf should be expected.
9. As 25% of the costs of the facility are deferred until the conclusion of the 30-year lease term, the developer is anticipated to increase the financing costs to cover the risk of not receiving the lump-sum payment at the end of term should the state decline the option to purchase the building. The cost of this risk to the developer is indeterminable.
10. The disposition of the building at the end of the 30-year lease term is not specified should the state decline the option to purchase. It is unknown whether the state would renew the lease or require the developer to remove the building, or the developer would be able to lease the space to others.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*